

To: Apprenticeship Levy Consultation  
BIS  
Spur 2 Level 2  
1 Victoria Street  
London  
SW1H 0ET

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Contact: Lee Osborne  
Tel: 02476 858528  
Email: Lee.osborne@nfu.org.uk

## Apprenticeships Levy

The NFU represents 47,000 farm businesses in England and Wales. In addition we have 40,000 countryside members with an interest in farming and the country. We are grateful for the opportunity to comment on the proposal to introduce an Apprenticeship levy. This has been proposed in order to ensure all 'large' organisations contribute towards the Government's target of 3 million additional apprenticeships to support the development of the UK's skills base.

Apprenticeships have the potential to deliver much needed skills within agriculture and are seen as an important entry route into the industry – although it should be noted they are not the only significant part of the skills framework. Through hiring apprentices, businesses in the sector are able to effectively train and develop people allowing them to progress in the industry. This is clearly beneficial for all involved; providing employability skills for the individual and further benefits to the employer of increased productivity and a motivated workforce.

Over the past five years the average number of apprenticeship starts in the industry has been just over 900. While this is encouraging for the industry, and helps to attract new entrants there is a need to grow the number of apprenticeships and encourage more businesses to take on and invest in an apprentice. Therefore the Government commitment, outlined in the election manifesto, to treble the number of apprenticeship starts in the 'agri-tech' industry is to be welcomed.

However if apprenticeships are to fulfil their potential in the sector they must deliver the skills that businesses need and ensure that standards are fit-for-purpose. To tackle this, the NFU is part of a cross industry initiative working alongside other organisations and employers in the sector on reforming apprenticeship standards under the Apprenticeship Trailblazer initiative. This aims to ensure the right standards are in place for employers and that apprentices will be fully competent in their occupation with transferable skills. This process will also help to raise awareness of apprenticeships in the sector.

Part of creating the right conditions to encourage growth in apprenticeships is ensuring that barriers for employers to take on apprenticeships are broken down. Current barriers for employers can include a lack of knowledge regarding apprenticeships schemes, concerns around health and safety, and a perception of administrative burden and red tape. Other barriers can be around funding streams and structures. There is further concern from Government that investment by business in training is in decline, with fears of having employees 'poached', and many employers reporting skills shortages.

As a result, an apprenticeship levy has been proposed to tackle the structural decline and to put investment in training, and specifically apprenticeships, on a long-term sustainable footing. Government proposes to collect this from larger employers, both public and private, in the UK with employers being able to use this to support all of their post-16 apprenticeships.

While the agriculture sector is predominately made up of micro businesses (which the consultation suggests will be exempt from the levy), we feel it is important to outline our views as a result of Governments commitments to treble the number of apprentices in agriculture. Before we respond to the individual questions we would like to set out our views and some general principles regarding the levy.

The NFU has the following concerns:

- The NFU believes that the levy, announced by the Chancellor in the summer budget, will result in additional significant extra labour cost for employers. The measure was announced alongside Government commitments to introduce a compulsory National Living Wage, which will mean a rise of 11% for workers aged over 25 from April next year. The target is to increase the National Living wage which could result in near 6% increases year-on-year until 2020. Employers in the agricultural sector are now starting to commence auto-enrolment which will bring significant added cost to their business. This cost will increase further when employer contributions under auto-enrolment rise from 1% to 2% in 2017.
- The past experience of levies in the UK has been mixed and there is no guarantee that placing an additional tax on businesses will drive apprenticeships and an increase in training that is right for that business.
- There is a perception that the levy has been introduced as part of a 'tick box compliance measure' in order to drive businesses to employ apprentices to meet the Government's target of delivering three million more apprentices in this Parliament. There is a concern that the levy will mean the outcome is more focussed on quantity rather than quality. This will help Government to hit their target of apprenticeship starts but it doesn't guarantee quality to increase productivity and close skills gaps
- There is a danger that any levy applied to large employers, for whom formal apprenticeships are just one element of training they offer to employees, could result in other training being significantly impacted, for example where businesses have graduate schemes or formal in-house training programmes. Placing a levy on these businesses will be both unfair and risk undermining other routes into employment and restrict other vocational and professional training which can be undertaken by business.
- There is a lack of detail in the consultation on some crucial aspects. There is no information about how much the levy will be, what the unspent levy will be used for, whether the levy simply follows the largest employment sectors at the expense of those sectors where growth and increases in productivity might be achieved, and who the levy will apply to. There needs to be further clarification on these issues and a full consultation before progress is made.

**As a result of these concerns the NFU does not support the measure to introduce a levy.** The NFU believes that a better approach could be achieved through voluntary measures and increased guidance and advice. For example, the NFU is a founding member of the industry-wide AgriSkills Forum which has produced a skills strategy 'Professionalism in Agriculture'. The forum, through the strategy, aims to professionalise the industry through upskilling and promoting skills development as being central to business improvement. As a result of the forum's work since 2010 there has been much greater recognition in the industry of professionalism, training and skills development.

However we recognise this consultation is focusing on the implementation of a levy. If it is decided that the levy proposal should be taken forward we believe the following principles need to be adopted by Government:

- The levy must be **proportionate and targeted**. The money raised from the levy must go back to employers to be spent on apprenticeships, allowing them to have control over spend and the nature of the training. Small businesses should be exempt from the levy, but it is vital they

continue to be supported by Government when taking on an apprentice. Many micro and small businesses will not be in a position to employ an apprentice due to the structure and nature of their business and therefore it would be disproportionate and unfair to include them in the levy. Likewise there will be larger businesses for whom the formal apprenticeship model is not particularly appropriate and other training is undertaken, and it is important that the levy is proportionate in these cases.

- The system must be **simple to operate and understand**. The introduction of a levy will increase costs and bureaucracy in administering the levy for employers, impacting on their competitiveness. The system must avoid unnecessary costs and red tape. There is concern from micro businesses that a move towards the digital voucher system will increase burden and introduce complexity into the system. This transition needs to be simple and easy to understand for those businesses operating without a HR department and the necessary funding knowledge.
- The levy must be **fair**. While the intention may be to fund all end to end elements of the apprenticeship programme using levy funds, it is important that businesses do not subsidise basic education standards. The functional skills elements of an apprentice must remain outside the scope of any levy as this is a market failure of the education system, and not businesses responsibility.
- The levy must be **transparent**. Government must be clear on how much is being raised through the levy and how much is being used to administer the system and deliver the digital voucher scheme, and how much is being reserved for top ups to individual allocations. We understand the levy is UK wide but only in England will employers be compelled to spend it on apprenticeships. This inconsistency complicates the system and with funding in England to be spent on apprenticeships does not recognise the importance of other vocational and professional training which can be just as important.

We have responded to the questions in the consultation which we feel are the most relevant and applicable.

### Paying the Levy

#### ***Should a proportion of the apprenticeship funding raised from larger companies be used to support apprenticeship training by smaller companies that have not paid the levy?***

The NFU understands that the proposed policy on the introduction of a levy will be applied to larger businesses only. As outlined above we have a number of concerns regarding the measure to introduce a levy to fund apprenticeships, but any introduction of a levy system must see micro and small business employers remaining exempt. The agricultural sector is predominately made up of micro and small business employers where many would be partnerships or sole traders. Due to their structure many of these businesses would have no further capacity or resource to invest in taking on an apprentice and it would be unfair and disproportionate to include them in any levy measure as not all of them would be able to benefit.

Employers across the sector who do take on and invest in apprentices will want to know as soon as possible how delivery for small and micro businesses is to be funded. Employers already meet the vast majority of the costs of the programme through salaries and other training costs, so we believe Government should make it clear the rate at which it is prepared to subsidise the full cost of apprenticeships by age and standard. This is not set out or made clear in the consultation; however it is vital that any micro business looking to take on an apprentice continues to be supported.

The NFU believes that any funding used to support micro and small businesses is kept separate from any levy raised and existing funding streams where employers pay a cash contributions with additional access to Government contributions, is maintained. There is a danger that funding apprentices for micro and small businesses using a surplus from the levy could be seen as a moving in a direction of including them and asking them to contribute to the overall levy.

As outlined above this would disproportionate as not all would be able to benefit. There are concerns that this would increase red tape and reduce competitiveness for these business and impact on other training they do, and could lead to employers actually being deterred from offering apprenticeship places in the future,

#### ***In your opinion, how should the size of firm paying the levy be calculated?***

The definition of large business should be as per the current definition used by the Department for Business Innovation and Skills and by the European Commission which is that large firms are those which employ at least 250 employees. However we believe this must be based on an average number of employees across the year and based on full time equivalents. It should exclude additional employees that are recruited to help at peak times for that business.

There will be cases where some of our members will recruit seasonal and casual workers to help during labour intensive peak periods such as harvest and picking crops, which may take these businesses above this threshold for a number of weeks across the year. Including these businesses as part of the levy will be disproportionate, burdensome and unfair as they would only go above this threshold for a short period of the year. Therefore any measure should be based on an average, taking into account the full business year.

#### ***Should employers be able to spend their apprenticeship funding on training for apprentices that are not their employees?***

As businesses will be funding the levy it should ultimately be their decision as to where they can spend their levy allocation. Some businesses may want to spend this within their own supply chain where there are partnerships and collaborative working agreements in place and training of apprentices will be mutually beneficial.

**Allowing employers to get back more than they put in*****How long should employers have to use their levy funding before it expires?***

It is not clear in the consultation whether this relates to funding spend in order to 'sign up' apprentices or whether it is for funding up to completion of the apprenticeship programme. Greater clarity is needed on this aspect of the levy proposal and consultation document.

If the question is around 'signing-up' an apprentice, the funding should be used within a year before it expires. However, if it relates to funding for the apprentice this should be linked to the length or duration of the apprenticeship programme in order to make the system as simple as possible to manage and administer. For example if it is a degree level apprenticeship for four years then the funding should be allocated and be available for this period. It is important the system is kept as simple as possible.

***Do you have any other view on how this part of the system should work?***

It will be useful for there to be a portal available to employers with 'statements' providing details regarding how much funding they have spent, and how much is left with a use by deadline shown. This will again make it simple and clear as to when the funds will cease to be available to employers and when they will be transferred to the 'surplus' pot for other employers.

***Do you agree that there should be a limit on the amount that individual's employer's voucher accounts can be topped up?***

It is clear that the levy is a significant change in funding policy with the Government looking to fund a greater amount of apprenticeships through employer contributions. As a result Government presumably has a finite amount of money to spend in this area either derived from the levy or other sources. The NFU would therefore question how an individual's employers voucher accounts would be topped up and where this funding would come from. As a result, we believe any top ups would need to be limited.

***How do you think this limit should be calculated?***

It is difficult to outline how this should be calculated as the consultation provides no further detail on the levy amount and no definition as to what a large business is and how apprenticeship funding will work in general.

The consultation is not also clear on what it means by 'employers will get more out of the system than they put in'. This is an important point in getting employer support and buy in and clarification is required on whether this means more cash or other benefits. These areas need to be clarified before we can respond to this.

***What should we do to support employers who want to take on more apprentices that their levy funding plus any top ups will pay for?***

The NFU would want to see existing funding models continue for small and micro businesses to help encourage more apprenticeships. Where the levy does apply we believe that businesses must be able to spend their levy on apprenticeships that are needed within their business model. Where businesses are looking to take on more apprentices than their levy funding will allow plus any top ups, consideration must be given to employers themselves funding this.

**The Levy is Fair*****How can we sure that they levy supports the development of high quality apprenticeship provision?***

Feedback from the end user is vital in a system where employers are direct purchasers of training. The views of employers and apprentices regarding the quality of training should be sought upon completion and during the apprenticeship scheme.

This information should be continually monitored and reviewed and used alongside inspection and performance data on both outcomes and impacts of the training received. Any information collected for evaluation purposes must be able to be comparable against existing data to ensure that there is an evidence base to show what different the levy has made in the development of high quality apprenticeships.

***How best can we engage employers in the creation and wider operation of the apprenticeship levy?***

Information should continue to be shared through existing networks and infrastructures including with professional bodies, trade associations, sector skills councils and other bodies to help raise awareness and ensure employers are well informed on the wider operation of the apprenticeship levy. Government should also consider carrying out seminars or regional events in order to obtain feedback and a wider range of views from stakeholders.

We would also expect to see information relating to apprenticeships being contained a one central location, for example on Gov.UK. This should be easy to access and understand.

**Giving employers real control*****Does the potential model enable employers to easily and simply access their funding for apprenticeship training?***

While the model for the digital voucher system set out in the consultation looks easy and simple to access, there is a concern that this will lead to an increase in cost and burden for small and micro businesses. Many of these businesses will operate without a HR department and will be unfamiliar with funding arrangements with training providers for apprenticeships. This system will be a big change for these businesses and there is a danger that making it too onerous or complex may deter employers from taking on an apprentice. There is a concern that the inclusion of ceiling caps, limit on top ups, etc will make the system even more complicated.

While transparency regarding the apprenticeship system and training providers is important it is also essential that much of the wiring is hidden from employers to help make the system as easy and straightforward as possible.

***Should we maintain the arrangement of having lead providers or should employers have the option to work directly with multiple providers and take this lead role themselves if they chose to do so?******If employers take on the lead role themselves what checks should we build into the system to give other contributing employers assurance that the levy is being used to deliver high quality legitimate apprenticeship training?******Should training providers that can receive levy funding have to be registered and / or be subject to some form of approval or inspection?***

Having a lead provider will make the process easier and simpler for employers, but there is a danger limiting the options for businesses will lead to increases costs. Transparency is the key here and full information must be provided on the costs involved of any sub-contractors being used.

The approval and inspection system processes should be as per the existing system if this is working. However as the levy will be employers money it is important that flexibility is introduced and Government avoid a 'control and command approach' by stating where employers can spend their levy allocation. If there are training providers that employers want to use and are recommended in a particular industry, but are not recognised on the relevant register it is important mechanisms are in place to get them approved quickly and efficiently.

### **The Levy is simple**

#### ***How should the new system best support the interests of 16-18 year olds?***

In order to encourage employers to offer apprenticeships to 16-18 year olds the Government could consider incentives such as a levy top up for younger apprentices. A similar model to the pilot being used under the Trailblazer initiative where employers received grants or additional payments when hiring young people should be applied.

#### ***Do you agree that apprenticeship funding should only be used to pay for the direct costs of apprenticeship training and assessment?***

The apprenticeship levy should only be used for the funding of the training and assessment, but this should be extended to include books and learning material. This should also include transport costs which can be a major barrier in rural areas for attracting apprentices.

The NFU is very concerned to learn of reports that suggest levy funding could be used to fund all end to end elements of the apprenticeship programme including Maths and English functional skills. While employers recognise the general education elements (such as teaching of level 2 Maths and English) are essential parts of apprenticeship standards, this must not result in industry subsidising basic general education standards. They must remain outside the scope of any levy as the requirement to study these, in order to reach the required standard, will be a market failure of the education system and not businesses responsibility.

#### ***Do you have any further comments?***

There are several areas within the consultation where clarification and further information is needed. There are issues around what the unspent levy will be used for, whether the levy simply follows the largest employment sectors at the expense of those sectors where growth and increases in productivity might be achieved. There has also been no consultation on what the rate of the levy will be and who it will apply to. **There needs to be a full consultation with further and more detailed information.**

The NFU is also concerned that the levy will be introduced and apply from as early as April 2017. This will coincide with the wider apprenticeship reforms on standards and frameworks under the Apprenticeship trailblazer. This is likely to result in major change and disruption for both funding and content elements of Apprenticeships at a time when Government is targeting 3m starts, and trebling the number of apprenticeships within agriculture. The levy would be introduced alongside a rise in employer contributions under auto-enrolment which could lead to further costs and administrative burden.

**The NFU therefore believes that the introduction of the levy should therefore be delayed to allow for a more sensible timetable.**